Sanlam

cumulus echo

retirement annuity

Insurance | Financial Planning | Retirement | Investments | Wealth

Working of the plan

In order to receive the retirement annuity benefits, you must become a member of the Central Retirement Annuity Fund (the FUND). The FUND will take out a plan with us, Sanlam Life Insurance Limited (Sanlam Life), on your, the member's, life, to provide the benefits. The FUND, and not you, will be the planholder. In this document we refer to you, the member, as the life insured.

The plan is an insurance policy as described under, and regulated by the Long-term Insurance Act, 1998. The plan will be administered by us.

Plan details

Start date

The plan starts on the chosen date for a term until the option date which is your planned retirement date. After the option date, the term of the plan is open-ended. This means that you do not have to retire on the option date and can elect to retire at a later date.

Payment details

Recurring payment

A recurring payment of R400 is payable monthly on the payment due date, and on the same day of every month, or the first working day thereafter if the due date is not a working day. The recurring payment will increase with Sanlam inflation one year after the plan's start date, and on every plan anniversary thereafter.

Illustrative recurring payments

Expired term in years	Recurring payment
1	R420.00
2	R441.00
3	R463.05
4	R486.20
5	R510.51
10	R651.56
15	R831.57
20	R1 061.32
25	R1 354.54
30	R1 728.78

A payment growth rate of 5% per year is assumed for the above illustration. The actual payment growth rate will be determined by the future Sanlam inflation rate at the time of growth.

Payment growth

Sanlam inflation

The recurring payment will be increased each year by the inflation rate, as determined by us. In setting the rate, we will take into account the change in the consumer price index, or any other commonly accepted method of measuring inflation that may apply at the time. The Sanlam inflation rate may differ from official rates, due to differences in calculation methods. A minimum increase applies, which may change from time to time. The current minimum is 4%.

Investment details

Investment funds for the Satrix Lifetime Investment Option	Fund number	Risk classification / asset class	Allocation %
SATRIX Dynamic Balanced Fund	736	Moderate	100.0
Wealth Protector	695	Conservative	0.00
Total			100.0

Information about all the investment funds we offer is available on the Sanlam website at http://www.sanlam.co.za.

We invest a payment in the respective chosen investment funds by buying units in each of these investment funds.

Because the Satrix Lifetime Investment Option applies, we will actively manage your investment. We allocate the investment to the investment funds as indicated in the previous table. Six years before the chosen retirement date we will start to gradually switch the investment from the SATRIX Dynamic Balanced Fund Portfolio to the Wealth Protector Portfolio. We will sell units in the SATRIX Dynamic Balanced Fund Portfolio, and buy units in the Wealth Protector Portfolio. No transaction charge will be levied for these switches. The switches will be done on a quarterly basis until 100% of the investment is invested in the Wealth Protector Portfolio one year before the chosen retirement date. This is to ensure that the plan is fully invested in stable investment funds at the chosen retirement date.

For all investment funds the unit price is not guaranteed, and may increase or decrease over time.

The fund value of the plan is the total fund value of all the investment funds for the plan.

Investment fund descriptions

SATRIX Dynamic Balanced Fund

The SATRIX Dynamic Balanced Fund is a passively managed investment fund that offers diversified exposure to all the major local and international asset classes at a competitive fee. The fund invests in a basket of indices and derivative contracts are used to obtain exposure to the relevant indices.

Wealth Protector

The investment objective of the Wealth Protector Portfolio is to, as far as possible, protect the retiree’s annuity purchasing power, by investing in assets whose returns are expected to be positively correlated to the “cost” of the annuity on retirement. The fund is managed according to the guidelines as set out in Regulation 28 of the Pension Funds Act.

Compliance with Regulation 28

Regulation 28 of the Pension Funds Act, 1956 requires that savings towards retirement must be protected. For this reason the regulation limits the exposure to different asset classes for retirement fund plans. Currently the maximum limits are, amongst others, 75% in equities, 25% in offshore assets, 25% in property assets and 10% in hedge funds. It is essential for retirement fund plans to comply with the limits of Regulation 28.

Some investment funds are Regulation 28 compliant which means that the asset managers of those funds ensure that the funds always comply with the limits of Regulation 28. Since the lifetime investment option has only Regulation 28 compliant investment funds, this plan will always be Regulation 28 compliant.

If a retirement fund plan has one or more investment funds which are not Regulation 28 compliant, market movements could result in the asset allocations of the plan exceeding the limits stipulated by

Regulation 28. For this reason we are obliged to monitor the plan on a regular basis to determine whether it is still Regulation 28 compliant. If the plan is no longer compliant, we will inform the life insured about the required actions to rebalance the asset allocation as well as the implications if this is not done.

Factors affecting the return on the plan

Investment return on investment funds

The gross investment return is the rate of return earned on the applicable investment funds, before deductions for life office tax and charges but after direct investment expenses. This rate will depend on financial market conditions and the rate of inflation during the plan term.

Effect of inflation

Inflation has a major impact on investment returns, and in general higher inflation leads to higher investment returns and lower inflation leads to lower investment returns. Real rates of return (the excess of the investment return over the inflation rate) give a more meaningful indication of how the investment has performed.

Effect of life office taxation

Currently no tax is levied in the policyholders' fund for retirement funds held by an insurer. This means that no tax is paid while your benefits are accumulated.

Effect of charges

The reduction in yield (RIY) shows the extent to which the investment return on the plan will be reduced by charges against the plan and includes the enhanced effect of the Echo Bonus. The term over which the RIY will be calculated is subject to a maximum term of 25 years as prescribed by the Code on Policy Quotations. If the life insured continues with the payments for a term of longer than 25 years, the RIY will be lower. The lower the RIY, the more cost-effective the investment is.

The assumed investment return is not guaranteed, but merely used to illustrate the impact of all the charges and the enhanced effect of the Echo Bonus as indicated in the next section.

Echo Bonus

Description

The Echo Bonus is an additional amount which is added to the benefit payable at termination or retirement. Generally, the longer the life insured has made payments and the higher the amount of the payments over the term of the plan, the larger the Echo Bonus will be.

For the purpose of calculating the Echo Bonus, the payments are split into parts called payment layers. The first payment layer is formed by the recurring payment at the start of the plan. Thereafter, for each recurring payment increase, whether at the life insured's request or due to payment growth on the plan, a new payment layer is added. The new payment layer is formed by the increased part of the recurring payment. The Echo Bonus for the plan is the sum of the Echo Bonuses for all the payment layers.

For each payment layer, a separate Echo Bonus is calculated. The Echo Bonus is a percentage of the sum of the life insured's invested payments for each payment layer and the investment return up to the time of calculating the Echo Bonus, multiplied by a factor.

The percentage referred to here is called the Echo Bonus percentage, and depends on the term for which the payment layer has been in force at the time of the calculation. The longer this term, the higher the Echo Bonus percentage will be.

The Echo Bonus percentages for different terms are indicated in the following table.

Echo Bonus percentage for the recurring payment:

Term in years	Echo Bonus %
0	0
5	2
10	10
15	20
20	30
25	50
30	70
35	90
40	110

For terms longer than those indicated in the table, the Echo Bonus percentage will increase with 20% every 5 years after the last term in the table. For example, the Echo Bonus percentage for a 45 year term will be 130%.

For a term in-between those shown in the table, we first determine the percentages that apply to the terms before and after the required term. Then we determine the percentage to be used for the required term as an interpolation between the two percentages. For example, if the percentages for 2 consecutive terms, say 10 and 15 years respectively, is 10% and 20%, and the required term is 12 years, then the percentage will be 14%.

The calculation is as follows: [10% + (20% – 10%) x (12 years – 10 years) ÷ (15 years – 10 years)].

The investment return reflects the performance of the underlying investment funds of the plan. The investment return also allows for any charges or fees deducted from the fund value of the plan. The sum of the life insured's invested payments for all payment layers and the investment return is equal to the fund value of the plan.

For each recurring payment layer the factor used in the Echo Bonus calculation is equal to the sum of the recurring payments made up to the time of calculation, divided by the sum of the recurring payments that we expected would be made over the term from the start date of each payment layer to the option date. For as long as the life insured continues to make the recurring payments, the factor will increase. If the life insured reduces or stops recurring payments, the factor will increase at a slower rate or stop increasing. The factor is limited to a maximum of one.

For calculation of the Echo Bonus at the death of the life insured, at early retirement due to ill-health before the life insured's 55th birthday, and for recurring payment layers starting after the option date, the factor is regarded as equal to one.

Example 1: Emma is 40 years old. She decides to contribute R1 000 per month to a Cumulus Echo Retirement Annuity with a chosen retirement age of 65 – so the contractual term of the plan is 25 years. Therefore, if you look at the table, it shows that an Echo Bonus of 50% will be added to Emma's total retirement savings when she retires at 65. If Emma **makes all her payments** up to age 65 and a 10% rate of return is assumed, Emma's fund value would be approximately R600 000, and an Echo Bonus of R300 000 (i.e. 50% of R600 000) will therefore be added to her total fund value. Her retirement benefit therefore equals R900 000.

Example 2: Alternatively after 15 years at age 55, Emma decides to reduce her payment by 50%, making it R500 per month. After 5 years of paying R500 per month, she increases her payment to R1 500 per month and takes the retirement benefit on her chosen retirement age of 65.

The original payment of R1 000 per month, which was later reduced to R500 per month, constitutes the first layer. Emma's fund value for this layer at age 65, when she retires, is approximately R530 000.

The increased payment of R1 000 per month payable from year 20 constitutes the second layer. Emma's fund value for this layer at age 65, when she retires, is approximately R70 000.

The Echo Bonus for each layer is then calculated as follows:

Layer 1 has an Echo Bonus term of 25 years, which means an Echo Bonus % of 50% applies (see Echo Bonus table on previous page).

The Echo Bonus is then determined as follows:

Echo Bonus = Echo Bonus % x fund value x factor (f)

Where:

f = Payments received for layer 1 / payments expected for layer 1

= [(1 000 x 12 x 15) + (500 x 12 x 10)] / (1 000 x 12 x 25)

= 0.80

Therefore:

Echo Bonus = (50/100) x R530 000 x 0.80

= R212 000

Layer 2 has an Echo Bonus term of 5 years, which means an Echo Bonus % of 2% applies (see Echo Bonus table on previous page).

The Echo Bonus is then determined as follows:

Echo Bonus = Echo Bonus % x fund value x factor (f)

Where:

f = Payments received for layer 2 / payments expected for layer 2

= (1 000 x 12 x 25) / (1 000 x 12 x 25)

= 1

Therefore:

Echo Bonus = (2/100) x R70 000 x 1

= R1 400

Benefit details

The Echo Bonus percentages used in the calculation of the Echo Bonus to be added to the benefit payable at the planned retirement age will be indicated in the plan statement.

If lower commission has been negotiated, the recurring payment Echo Bonus percentage used in the calculation of the Echo Bonus to be added to the benefit payable at the planned retirement age will be increased. If the payment-based commission is renegotiated at some point in the future, the additional Echo Bonus percentage will be adjusted accordingly.

Charges

This information is given as on the date mentioned in our invitation, and any reference to “current” or “currently” refers to that date. This means that the charges may change from time to time.

Tax

Tax is levied according to the rate applicable to the relevant policyholders’ fund. Currently no tax is levied in the policyholders’ fund for retirement funds.

Charges for the plan

The current charges are indicated below.

Payment charge

If payments are made by stop order, the payment charge is currently 3.50% of each payment. There is no payment charge if payments are made by debit order.

Marketing and administration charge

The marketing and administration charge is calculated as a percentage of the fund value. Separate percentages apply to the one-off and recurring funds. However, this charge is subject to a minimum amount of R40 per month which will be adjusted yearly to allow for inflation. The charge is calculated on a monthly basis, which means the percentage is divided by 12 to calculate the monthly amount. The charge is deducted monthly from the fund value by selling units to the value of the charge.

The marketing and administration charge changes as the fund value increases to higher fund value bands, as indicated in the following table.

Marketing and administrative charge for the recurring fund:

Fund value band	Yearly marketing and administration charge % of the fund value of the plan
First R500 000	3.75
Next R500 000	3.50
Next R1 000 000	3.50
Excess above R2 000 000	3.50

The marketing and administration charge is currently 3.75% per year of the fund value.

Deductions made by the asset managers

An asset manager levies the following for an investment fund. These are included in the daily price of the units.

Asset management charge

A yearly asset management charge, which is a percentage of the plan’s part of the market value of the assets in an investment fund. The charge is calculated on a daily basis, which means it is divided by 365 to calculate the daily amount.

Investment fund	Yearly % of market value
SATRIX Dynamic Balanced Fund	0.20
Wealth Protector	0.25

- Direct investment expenses

The direct investment expenses are for example, collective investment initial fees, brokerage, audit fees, bank charges and trustee fees.

Alteration charge

We will not levy an alteration charge if an early retirement benefit or withdrawal benefit is taken or if the recurring payment is reduced or stopped.

Transaction charge

The transaction charge for each of the following alterations is currently R300 as determined by means of regulatory measures and it will change in future if such regulatory measures or legislation changes.

- Reduction or stopping of the recurring payment;
- Taking an early retirement benefit;
- Termination of the plan.

We will not levy this transaction charge on or after the option date. The transaction charge will be taken from the fund value of the plan by selling the required number of units.

Reducing or stopping the recurring payment

The recurring payment may be reduced or stopped on request. The recurring payment may only be stopped if the fund value of the plan is at least R100, after deducting the payment reduction charge, if applicable, and the transaction charge. If recurring payments are stopped despite this condition not being met, the plan will lapse.

Commission

The commission is not levied in addition to the “Charges”. A part of these charges pays for the commission.

The following commission is payable once you accept this invitation.

A maximum of 5% of every payment may be paid as commission.

- Initial commission

We will charge initial commission totaling 50% of the maximum 5% commission, therefore 2.5% of every payment. The initial commission will be discounted and paid up-front at the beginning of the first year of the plan. The discount rate is 6% per annum. We apply the discount rate to the initial term of the plan, subject to a maximum initial term of 25 years. The table below provides the discount term equivalent for various example initial terms, as well as the initial commission amounts payable if you invest R400 per month with no future contractual payment increase.

Initial term (in years)	Initial term (in months)	Discounted term (in months)	Initial commission amount
5	60	52.18	R521.80
10	120	91.17	R911.70
15	180	120.30	R1 203.00
20	240	142.07	R1 420.70
25	300	158.34	R1 583.40

The formula is:

Chosen monthly payment amount x 2.5% commission x discount term (in months)

The maximum initial commission payable on each future payment increase will be a similar proportion of the increase in payment, reducing with the outstanding term.

- Payment-based commission

Payment-based commission is payable every time a recurring payment is received. The rest of the 5% (after the initial commission), therefore 2.5% of every payment, will then be paid as payment-based commission as and when payments are received.

The payment-based commission for a R400 monthly payment, will amount to R10 every time a payment is received.

The formula is:

Chosen monthly payment amount x 2.5%

If maximum initial commission is taken on a plan with an initial term longer than 25 years, the maximum payment-based commission to be paid from year 26 onwards is 2.5% of every payment.

The maximum payment-based commission payable will increase in the same proportion as any increase in payment.

We will continue to pay the payment-based commission after the option date at a maximum rate of 5% of every payment.

Benefit descriptions

Retirement benefit

The retirement benefit may be taken at any time from the life insured's 55th birthday, except in the event of ill-health when it may be taken earlier. The retirement benefit amount is equal to the plan's termination value, which is the fund value of the plan less the transaction charge and termination charges, if applicable.

How will the retirement benefit be provided?

According to current legislation, the life insured may take up to one-third of the benefit amount as a lump sum. The balance must be used to provide regular pension payments. Or, the life insured can choose that the full benefit amount be used to provide regular pension payments.

Whichever way the benefit amount is taken, the plan will then end.

Tax on withdrawal and retirement benefits

According to current tax legislation, and depending on the life insured's tax situation,

- the lump sum benefit could be tax-free within certain limits, and
- regular pension payments will be fully taxable as income.

If the total retirement benefit of all the plans held by the FUND on the life insured's life is less than R75 000, it may be paid as a lump sum.

Tax saving

According to current legislation your payments to a retirement annuity fund qualify for tax relief up to your personal limit.

Benefit payable at death

The fund value at the date on which we received notice of the death of the life insured will be payable. The full benefit amount may be paid as a lump sum, or it can be used to provide regular pension payments.

Who will receive the benefit payable at death?

As required by the Pension Funds Act, any amount payable as a result of death must be paid

- to any or all of the dependants of the life insured, or
- if the life insured has appointed nominees who are not dependants, then to any one or more of the dependants and nominees.

Replacement

It is not in your interest to, wholly or partially, cancel an existing financial product or reduce payments on it, in order to take out this plan. It is important that you understand the effects that this might have on your financial planning. Among the potential implications, cost and consequences of such a replacement, where applicable, are:

- payment of new charges
- the influence of increased age on payments
- future uninsurability
- loss of cover
- recoupment of unrecovered expenses under the existing product
- loss of tax advantages (if any)

Claim procedure

In the event of a claim, please inform us as soon as possible. To obtain the necessary claim forms and to ensure that all the required information is supplied, contact the Sanlam Life Claims Call Centre at (021) 916-1710. Depending on the nature of the claim, documentary proof (e.g. a death certificate or medical report) will be required.

Applying for the Cumulus Echo Retirement Annuity is easy

You can either:

- Contact us on 0860 22 33 90 from Mondays to Thursdays between 08:30 and 17:00, and Fridays between 08:30 and 16:00.
- Or contact your Sanlam adviser or your broker. (Call 0860 22 33 90 if you do not have a Sanlam adviser or a broker.)

Cooling-off period

As soon as your application has been processed, you will have a period of 30 days in which to examine the contract documents, and decide whether you wish to continue with the plan. If the plan really does not meet your requirements, and if you have not made any changes to it, you can cancel it by notifying us in writing during this period. We will then refund any payments you have already made. If the assets in which the payments were invested have decreased in value, or if you have already received benefits from the plan, we will reduce the amount to be refunded to you accordingly.

You will not be able to cancel the plan if you have received a tax certificate in connection with the transfer, or if the money has been transferred from a retirement fund and that fund is not prepared to reverse the situation.

Trading of assets

Sanlam Life may leverage the assets in the investment funds for transactions such as scrip lending. Any income or loss arising from these transactions will be for Sanlam Life's own account, and therefore do not affect the benefits to which the life insured is entitled under this plan.

Professional indemnity insurance

Sanlam Life holds professional indemnity insurance.

Enquiries

At Sanlam, we do realise that a financial company without a good reputation and satisfied clients is nothing. If you require further information on the Cumulus Echo Retirement Annuity Core Option, or if you have received unsatisfactory service or inappropriate advice, please phone our Client Contact Centre on 0860SANLAM (0860 726 526), or send us an e-mail message at stratus@sanlam.co.za. Our compliance department can be contacted at the same number.

Notes:

If you proceed on your own with this transaction, we accept that it is not based on the advice of a Sanlam adviser or a broker.

All references to Sanlam Life mean Sanlam Life Insurance Limited. Sanlam Life is a Licensed Financial Services and Registered Credit Provider.